

Virginia Housing Trust Fund Structure and Use Plan

Purpose and Background

The biennium budget for fiscal years 2015-16 allocated \$4,000,000 in the first year and \$4,000,000 in the second year to fund activities through the Virginia Housing Trust Fund. This follows the 2013-14 biennium budget which allocated \$8,000,000 to create the Virginia Housing Trust Fund.

At least 80 percent of the Fund is to be used for short, medium and long-term loans to reduce the cost of homeownership and rental housing. Up to 20 percent of the Fund may be used to provide grants for targeted efforts to reduce homelessness.

The entities charged with administering the Virginia Housing Trust Fund—the Department of Housing and Community Development (DHCD) and the Virginia Housing Development Authority (VHDA)—have extensive experience in implementing the activities needed to carry out the provisions of the Fund. VHDA originates and services loans on a regular basis through its bond and revenue programs. It also services loans made with HOME funds administered by DHCD. Both agencies, which are overseen by boards subject to gubernatorial appointment, have more than two decades of experience in developing housing policy, and structuring and implementing programmatic tools to operationalize those policies. DHCD and VHDA worked collaboratively to implement the provisions of the Virginia Housing Partnership Revolving Fund, *Code of Virginia*, §§36-141 through 36-151.¹ Both DHCD and VHDA are skilled at packaging affordable housing projects that include a range of funding sources in order to leverage their resources. The budget language creating the Housing Trust Fund identifies leveraging as an important component of the Fund’s operation.

Input Into the Structure of the Housing Trust Fund

Significant stakeholder input was gathered leading up to the development of the initial Housing Trust Fund framework. Building on this foundation DHCD has met with representatives of the Virginia Housing Coalition to discuss proposed changes for the Trust Fund and listen to input from the Coalition’s membership. Additionally, one new facet of the proposed Trust Fund, discussed in detail later, was presented as part of DHCD’s Consolidated Plan Input Session process. Through this effort DHCD convened five sessions across the Commonwealth, with a total of 175 attendees.

¹ <http://lis.virginia.gov/cgi-bin/legp604.exe?000+cod+TOC3600000000900000000000>

Action Plan: Input Sessions	
Location	Number of Attendees
Roanoke	30
Abingdon	32
Hampton	34
Prince William	29
Richmond	50

An online survey was also conducted as part of this Consolidated Planning process, with a total of 98 responses.

Parameters of the Housing Trust Fund

The budget bill included language establishing the basic parameters for the Trust Fund. These included guidance on the allocation of funds for grants and loans, a statement describing the types of activities eligible for grants or loans, and a list of the types of organizations eligible to receive program funds. The budget direction also stressed the importance of considering opportunities for leveraging and providing flexibility in loan products.

To implement the provisions of the appropriations act, DHCD and VHDA are proposing to allocate funds through the broad categories shown on the following table. The intent of the agencies is to encourage a variety of responses from eligible applicants so funds are deployed in a timely and strategic manner.

Proposed Virginia Housing Trust Fund Allocation	
Loans	
Competitive Loan Pool	\$5,523,892
Comprehensive Neighborhood Revitalization Pilot	\$1,500,000
Grants	
Homelessness Reduction Competitive Grant Pool	\$1,000,000
Administration	160,000
Total	\$8,183,892*

**includes \$183,892 in unutilized funds from 2013-14.*

Affordable Housing Loan Program

At least 80 percent of the funds allocated to the Virginia Housing Trust Fund must be used to provide loans that reduce the costs of affordable rental housing and homeownership. Building on their previous experience with the Housing Trust Fund and the Virginia Housing Partnership Fund, the housing agencies have determined VHDA will provide the underwriting services needed to implement the key provisions of loans made through this program. DHCD, with the participation of VHDA, will structure the design of the loan component with sufficient flexibility to maximize the long-term affordability and sustainability of the housing projects receiving assistance. They will also include provisions that encourage opportunities to include project participation from other public and private funding sources.

The loan program will have two distinct components. A majority of the loans will be offered through a competitive loan pool open to a variety of eligible projects accomplishing the fund's purposes. A second, dedicated to a new Comprehensive Neighborhood Pilot project.

Competitive Loan Pool

While the competitive loan pool will accommodate a wide array of possible projects, it will acknowledge the direction of a number of gubernatorial initiatives as well as the limited available funds by giving priority to demonstration projects that address articulated state housing policies. Such policies include supporting affordable, community housing options for persons with disabilities (including funding that could aid the state response to the DOJ settlement) and expanding permanent housing opportunities for persons experiencing homelessness.

Most of the funds in the Housing Development Loan Pool will be used to provide low-interest loans that are structured to meet the financing needs of specific projects. DHCD and VHDA anticipate that a majority of the loan pool will provide financial assistance for specific projects that address the affordable rental housing needs of very low-income citizens, while giving priority to projects that address critical housing needs mentioned in the previous paragraphs as well as other areas of need such as returning veterans. To assure the long-term viability of affordable rental projects, the agencies will give priority consideration to projects that have an identified strategy for financial sustainability, such as providing rental assistance to income-qualified tenants. In keeping with the direction that the loans provide flexible financing, the agencies will set repayment rates and terms for each individual loan from the Trust Fund. In addition, provisions of the loan program will encourage applicants to pursue leveraged funds from other sources such as LIHTC program tax credits, program income derived from the Neighborhood Stabilization Program (NSP 1 and 3), and other federal and local housing programs, such as HOME and the Community Development Block Grant programs.

As with many of its programs, DHCD will use a competitive process to select projects for funding. The maximum loan available to a single project will be capped at \$750,000. The criteria used to evaluate projects for funding will include the: (1) direct impact on one or more high

priority state housing policies; (2) leveraging; (3) affordability; (4) financial sustainability; (5) impact on local housing needs; (6) feasibility, (7) readiness, (8) coordination of services and (9) the applicant's administrative capacity. DHCD will rank competitive project applications using a standardized review with a 100-point scale. No project will be funded that scores below sixty percent. DHCD will make funding offers to the highest scoring projects in descending order until available funds are exhausted or all projects scoring above sixty percent have been funded. Applicants may be asked to provide additional information to finalize funding offers. Funding not allocated through the initial application process will be offered during subsequent round(s) with the final round of applications. Property funded through a Housing Trust Fund loan will be subject to a lien intended to ensure its continued use as targeted, affordable housing during a specified period. The outstanding balance on the loan will be due in the event the affordability period is not met.

DHCD intends to conduct How-to-Apply workshops in June and will set a proposal due date for August, 2015.

Comprehensive Neighborhood Revitalization Pilot

DHCD intends to initiate a pilot project which will combine multiple funding sources in order to fund comprehensive community projects. This effort will also consolidate DHCD project management and program compliance requirements where possible. The pilot will streamline where possible DHCD processes toward more strategic use of available resources.

Initial funding for the pilot will include a portion of the 2015-16 CDBG and HOME allocations. Pilot funding will also include Virginia Housing Trust Fund (\$1.5 million) and may include other funding sources where appropriate. At least \$4 million in state and federal resources will be set aside to fund the pilot. The pilot will be limited to two projects.

Each pilot project is anticipated to provide a 25 percent match in locally controlled resources based on the total amount of pilot funding included in the project. The match must be for hard costs only and may include locally controlled HOME funds, fee waivers, local government resources, donated real property, and/or other local funds (e.g., local foundation).

The selection of pilot projects will be implemented in two phase process. The first phase is an open letter of intent—targeted for August 2015—with the second phase being a full proposal from those letters of intent selected through a pilot review panel. It is anticipated proposals will be due in January/February, 2016.

Full proposals will be invited for comprehensive projects selected from the letters of intent received. Proposals must clearly describe the overall comprehensive project and all project activities. A comprehensive project is a project that includes a range of activities for example, neighborhood revitalization, downtown redevelopment, homeowner rehabilitation, down payment assistance, rental project development, water/sewer, and/or other infrastructure.

The letters of intent will be reviewed by the DHCD review panel and selected for full proposals based on the following criteria:

- A plan and initial groundwork in place on a comprehensive project that includes at least a housing component;
- Demonstrated success with similar projects;
- Partnerships in place to execute the project; and
- Demonstrated capacity (financial and development team experience).

All invited proposals will be evaluated through a review committee based on the following scoring criteria:

- Alignment
- Need
- Project Readiness
- Capacity

Eligible projects must include a housing component as a key or significant part of the overall project. These projects must be structured to meet identified local needs and help to inform a larger scale application of the combined-resources process.

Homeless Reduction Grant Program

The budget *permits* the use of up to 20 percent of the funds allocated to the Virginia Housing Trust Fund to provide grants for activities to reduce homelessness.

In accordance with budget language, the Homeless Reduction Grant funds may be used for temporary rental assistance, not to exceed one year, housing stabilization services in supportive housing for homeless individuals and families, and predevelopment assistance to support long-term housing opportunities for the homeless. The restriction on the amount of the Trust Fund available for grants (and the one-year assistance limitation) suggests the Trust Fund could not serve as a significant, long-term source of rental assistance. However, it could be used to close temporary gaps for individuals, serving as bridge for individuals transitioning into rental arrangements with documented commitments of future rental assistance from other federal, state or local sources.

As with the loan program, projects will be selected for funding through a competitive application process. Applicants may apply for up to \$100,000. The application period will run in parallel with the loan program. The initial application period will take place in August 2015. If required, subsequent application periods will follow the same schedule as the loan program. As with the loan program, DHCD will rank competitive project applications using a standardized review with 100-point scale. No project will be funded that scores below sixty percent. DHCD will make funding offers to the highest scoring projects in descending order until available funds are exhausted or all projects scoring above sixty percent have been funded. Applicants may be asked to provide additional information to finalize funding offers. Funding not allocated

through the initial application process will be offered during a subsequent round(s). Any grant funds not allocated by December 1, 2015, will be rolled into the Competitive Loan Pool.

DHCD will select projects based on the following criteria: direct impact on an established state housing policy; sustainability; impact on local needs; impact on reducing homelessness; feasibility; and capacity. Priority will be given to housing stabilization services and predevelopment assistance that are directly related to a project proposed for funding through the Affordable Housing Loan Program.

Organizations Eligible for Virginia Housing Trust Fund Allocations

The budget specified several types of organizations as being eligible to receive funding through the Trust Fund. Local governments, local housing and redevelopment authorities, regional or statewide organizations providing affordable housing and homeless assistance/services to Virginia citizens and holding companies expressly created for owning and operating affordable housing may apply for funding from the Virginia Housing Trust Fund. This would not preclude eligible organizations from contracting with a variety of other parties to assist in providing the housing and other resources required to satisfy the conditions of the grant or loan product.

Virginia Housing Trust Fund Administration and Management

Funding for the Housing Trust Fund is included in the Department of Housing and Community Development's budget. DHCD is to work in collaboration with the Virginia Housing Development Authority (VHDA) to carry out the provisions of the Fund. The two agencies partnered successfully to launch and implement the first iteration of the Housing Trust Fund and this model will be followed moving forward.

DHCD and VHDA have a proven record of accomplishment in jointly administering statewide housing initiatives. In the late 1980s, the General Assembly passed legislation creating the Virginia Housing Partnership Fund. It was created to improve the quality and affordability of housing throughout the Commonwealth and was jointly administered by DHCD and VHDA. DHCD set policy, provided technical assistance to its housing development partners in responding to funding opportunities and selected projects for funding through a competitive application process. VHDA provided underwriting services and originated and serviced loans.

This model worked well during the years the Partnership Fund received occasional new infusions of funding through the budget. In the early 2000s, the Partnership Fund ceased receiving appropriations and the budget directed the sale of its portfolio to VHDA to provide the additional revenue needed to close gaps in the overall state budget. However, the organizational framework of the Virginia Housing Partnership Fund remains intact within the Code of Virginia (§§ 36-141 through 36-151) where it provides a convenient template for administering the Housing Trust Fund contained in the current biennial budget. For administrative and organizational efficiency, it is recommended that the resources of the

Virginia Housing Trust Fund be placed within the Partnership Fund. This would avoid the need to create parallel administrative structures that effectively perform the same functions.

Based on this model, DHCD and VHDA will jointly determine the policy parameters of the Housing Trust Fund. Specific aspects of Trust Fund implementation will be handled by the individual agencies in accordance with their designated areas of expertise and responsibility.

With respect to the loan offerings, DHCD will provide technical assistance during project development. VHDA, drawing on its forty-year experience in mortgage lending as the state's housing finance agency, will provide project underwriting for the Affordable Housing Loan Program and perform loan origination, servicing and monitoring for all program loans. DHCD, which has more than thirty years experience in managing federal and state grant and loan programs for housing and community development, as well as extensive involvement in homeless programs, will administer the process to solicit applications for both the Affordable Housing Loan Program and the Homeless Reduction Grant Program. Overall responsibility for the ongoing administration and monitoring of grants made through the Homeless Reduction Grant Program will fall to DHCD.

Finally, because the various components of the Trust Fund will require substantial administrative effort on the part of the housing agencies, a total of no more than \$160,000 will be set aside and considered as eligible costs of the Fund.

Summary of Changes

The 2015-16 Program Design has some features which have evolved since the 2013-14 framework. Two elements will no longer be funded as a response to the changing market and landscape of affordable housing in the Commonwealth. In the initial implementation, two programs were incorporated to counteract the impact of foreclosures on Virginia communities—particularly in areas with the highest foreclosure rates. The Foreclosure/Homeowner Counseling fund, operated at a funding level of \$500,000, was a set aside for grants for foreclosure counseling in areas of the Commonwealth with the highest incidence of foreclosure. Grants were allocated in conjunction with VHDA's housing and foreclosure counseling activities. The second, the Trust Stabilization Fund, allowed locally-based organizations to acquire eligible homes, primarily lender-owned (REO) properties in the areas hardest hit by the foreclosure crisis offer deferred loans averaging \$15,000 to include local administrative costs and the cost of to remediate deficiencies in the condition of the home and place it in a marketable state. While there continue to be foreclosures in Virginia, the rate has diminished and the continued support is no longer necessary. There is still a very active foreclosure acquisition, rehabilitation, and resale program, the Neighborhood Stabilization program, and housing counseling services are still available through VHDA and a network of HUD-approved grantees. For these reasons the two activities related to foreclosures have been removed.

The introduction of the Comprehensive Neighborhood Revitalization Pilot represents the other change in this Program Design. This activity is described in detail in a previous section.

Evaluation and Analysis of Outcomes

Although the budget did not incorporate a requirement for an assessment of the performance of the Virginia Housing Trust Fund, the agencies intend to evaluate the various components of the Fund.

Such an assessment would require definition of indicators of success and a system of outcome measures. Anticipated outcome measures will include housing units provided, with a special focus on units provided to hard-to-serve target populations; services provided to support reducing homelessness; the mitigation of the adverse impacts of foreclosure on communities by the return of properties to owner occupancy; and the degree to which other financial resources can be leveraged for housing.

Both public input and the perspectives of state agencies with concerns about housing for a number of special needs categories expressed the desire to see resources directed toward areas of need addressed through crosscutting state policies. Improved interagency collaboration and communication has clearly indicated a pervasive lack of affordable housing impedes progress on a range of state policies. The evaluation will examine the extent to which the Trust Fund is able to facilitate progress in addressing areas of priority need.

Once all Housing Trust Fund resources have been allocated, DHCD and VHDA will advise the Senate Finance and House Appropriation Committee chairs of the types of projects, uses of funds and locations associated with the grant or loan awards.

Appendix A: Code of Virginia – Creation and Management of the Fund

§ 36-142. Creation and management of Fund.

A. There is hereby established in the state treasury a special permanent, nonreverting fund, to be known as the "Virginia Housing Trust Fund." The Fund shall be established on the books of the Comptroller and consist of sums appropriated to the Fund by the General Assembly, all receipts by the Fund from loans made by it to housing sponsors and persons and families of low and moderate income, all income from the investment of moneys held in the Fund, and any other sums designated for deposit to the Fund from any source, public or private. The Fund shall also consist of such other sums as may be made available to it and shall include federal grants solicited and received for the specific purposes of the Fund and all interest and income from investment of the Fund. Any sums remaining in the Fund, including interest thereon, at the end of each fiscal year shall not revert to the general fund but shall remain in the Fund. All moneys designated for the Fund shall be paid into the state treasury and credited to the Fund.

B. The Department shall:

1. Work in collaboration with the HDA to provide loan origination and servicing activities as needed to carry out the purposes of the Fund. The costs of such services shall be considered an eligible use of the Fund; and

2. Use, through HDA, at least 80 percent of the moneys from the Fund to provide flexible financing for low-interest loans through eligible organizations. Such loans shall be structured to maximize leveraging opportunities. All such funds shall be repaid to the credit of the Fund. Loans may be provided for (i) affordable rental housing to include new construction, rehabilitation, repair, or acquisition of housing to assist low or moderate income citizens, including land and land improvements; (ii) down payment and closing cost assistance for homebuyers; and (iii) short-term, medium-term, and long-term loans to reduce the cost of homeownership and rental housing. Moneys required by the HDA to fund such loans and perform loan closing and disbursement services shall be transferred from the Fund to the HDA. The Department may use up to 20 percent of the moneys from the Fund to provide grants through eligible organizations for targeted efforts to reduce homelessness, including (a) temporary rental assistance, not to exceed one year; (b) housing stabilization services in permanent supportive housing for homeless individuals and homeless families; (c) mortgage foreclosure counseling targeted at localities with the highest incidence of foreclosure activity; and (d) predevelopment assistance for permanent supportive housing and other long-term housing options for the homeless.

C. The Fund shall be administered and managed by the Department as prescribed in this chapter. In order to carry out the administration and management of the Fund, the Department is granted the power to contract with or employ officers, employees, agents, advisers and consultants, including, without limitation, attorneys, financial advisers, public accountants, engineers and other technical advisers and, the provisions of any other law to the contrary

notwithstanding, to determine their duties and compensation without the approval of any other agency or instrumentality. The Department may disburse from the Fund its reasonable costs and expenses incurred in the administration and management of the Fund, including reasonable fees and costs of the HDA.

D. For the purposes of this section, eligible organizations include (i) localities, (ii) local government housing authorities, (iii) regional and statewide housing assistance organizations that provide assistance to low and moderate income or low income citizens of Virginia, and (iv) limited liability companies expressly created for the purpose of owning and operating affordable housing.

E. In any year prior to the expenditure of any general funds appropriated for the Fund for the next succeeding fiscal year, the Department, in conjunction with HDA, shall submit a plan outlining the proposed uses of such funds to the General Assembly. The plan shall be provided to the Chairmen of the House Committee on Appropriations and the Senate Committee on Finance no later than November 1 of each year.

Appendix B: Housing Trust Fund Snapshot

Trust Fund	Grants	Loan		Totals
Components/ Features	Homelessness Reduction	Comprehensive Neighborhood Revitalization Pilot	Competitive Loan Pool	
Purpose	Provide competitive grants to local/ regional partners providing temporary (<1 year) rental assistance; housing stabilization services in permanent supportive housing; and pre-development for long-term housing opportunities for the homeless. Require coordination with CoC.	Competitive process to combine multiple funding sources in order to fund comprehensive community projects. Trust Fund resources will be directed to activities supporting the creation or preservation of affordable housing opportunities. Will consolidate project management and program compliance requirements where possible.	Through a competitive process, provide local/ regional partners with low-interest loans that will assist in financing housing projects that meet critical state housing policies. Project underwriting will tailor repayment rates and terms to specific project needs. The highest priority will go to those demonstrating financial sustain-ability and leveraging. <i>Prioritize projects serving special needs populations—ID/DD, Severe mental illness, Permanent Supportive Housing</i>	
Funding Available	\$1,000,000	\$1,500,000	\$5,523,892	\$8,023,892
Project Caps	\$100,000 per project	\$2,000,000 per project; combined with other sources of funding	\$750,000 per project	

**includes \$183,892 in unutilized funds from 2013-14. Administrative funds of \$160,000 to be included.*